

Hard Cases



Economics starts with the proposition that markets work well when property rights are clearly established. While this is a powerful insight . . . it is also limited.

Property rights lie at the foundation of a market economy. They must be well defined and well protected for a market economy to flourish. In fact, one line of argument asserts that a clear specification of property rights is *all* that is necessary to ensure economically efficient outcomes in a market economy. While this conclusion is certainly valid as a matter of economic theory, two articles in this issue of *Region Focus* make it clear that matters are sometimes more complicated. There are instances in which a clear specification of property rights is not as straightforward as one might think, and there are instances in which a narrow notion of economic efficiency may not be the only criterion for evaluating the social desirability of public policy.

Our article on attempts to regulate the Chesapeake Bay crabbing industry addresses a case where the specification of property rights is inherently

difficult. As the article explains, fisheries provide good examples of the “common resource” problem that can arise when property rights are not well defined. In the absence of intervention, there is a well-known tendency for competition to result in over-exploitation of common resources. Each fisherman feels entitled to extract as much of the resource — as many fish — as he or she can possibly sell, and no one has exclusive claims to future stocks of fish. Consequently, there is little incentive to take less from the water today in order to save for the future. This lack of an incentive to conserve leads to overfishing and the depletion of the fish population — an inefficient market outcome due, again, to ill-defined property rights.

While it is not possible to establish property rights to particular fish, it is possible to establish rights to participate in

the extraction of this common resource from Bay waters. Issuing such transferable rights would go at least part of the way toward solving the common resource problem. But it wouldn't necessarily allow the market to operate free of ongoing government intervention, since the determination of the total amount of rights to issue each season would have to be made in some collective manner.

Our article on the economic history of plantations deals with an industry that may well have been very efficient. The plantation system brought mass production to Southern agriculture, resulting in high productivity and substantial returns to landowners. This industry operated with a clear specification of property rights. Of course, this specification of property rights included slavery, an institution that imposed tremendous human costs on those enslaved. The institution was ultimately rejected not because it was inefficient but because it was unjust.

Economics starts with the proposition that markets work well when property rights are clearly established. While this is a powerful insight, this issue's articles remind us that it is also limited. Some property rights are hard to establish and others simply should not be established, for reasons that go far beyond the scope of economics.

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To Our Readers

When we launched *Region Focus* in 1997, our goal was to provide reliable and relevant information on the Fifth District economy.

We believe that we have adhered faithfully to that mission and are proud of our achievements over the past five years. But there is always room for improvement. Toward that end, we have made some significant changes to *Region Focus*.

Probably the first thing you'll notice is that the magazine has a new look. We have opted for a sleeker, more streamlined design. On the editorial side, we have added two new departments: a Federal Reserve report that will discuss the actions and responsibilities of the country's central bank

and an economic history series that will examine important issues that have shaped the business landscape of the Fifth District. We also have beefed up our regional economic coverage, with an expanded eight-page section that will close each issue of *Region Focus*. In addition, we have aimed to increase the level of analysis in our feature articles, without sacrificing anything in terms of readability and accessibility. And for those of you who would like to find out more about the topics covered in the magazine, when appropriate we have added a list of relevant articles and books at the end of each story.

We would love to hear your comments and suggestions — by letter, e-mail, or telephone. You'll find our contact information on the inside front cover. Welcome to the new *Region Focus*.